VZCZCXRO4668
PP RUEHPA
DE RUEHAB #0503/01 1341709
ZNY CCCCC ZZH
P 141709Z MAY 07
FM AMEMBASSY ABIDJAN
TO RUEHC/SECSTATE WASHDC PRIORITY 2946
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHTU/AMEMBASSY TUNIS 0043

C O N F I D E N T I A L SECTION 01 OF 02 ABIDJAN 000503

SIPDIS

SIPDIS

ACCRA FOR USAID/WARP
TUNIS FOR AFDB USED

E.O. 12958: DECL: 05/11/2017
TAGS: EFIN ECON PREL PGOV IV
SUBJECT: WORLD BANK, IMF, AFDB PUSH COTE D'IVOIRE, DONORS TO ACCEPT ACCORD ON ARREARS, DDR

REF: A. ABIDJAN 242

¶B. ABIDJAN 318

Classified By: EconChief EMassinga, Reasons 1.4 (b,d)

¶1. (C) Summary. The IFIs are pressing a coordinated effort to address Cote d'Ivoire's $450 million in arrears to the World Bank in order to allow reengagement by the Bretton Woods institutions. The outlines of the deal were put forth in the recent aide memoire signed in Washington between Ivorian Finance Minister Diby and Country Representative Bond: a so-called "pre-arrears grant" of $120 million and a similar amount in IMF budget support in exchange for rapid repayment of a significant (but as yet undetermined) portion of the arrears, greater transparency on the oil/gas front and IMF surveillance of the budget. While IFI officials recognize this multifaced package represents a risk, each institution appears fully engaged in formulating a plan defining the terms of a strict reengagement here. Recognizing the U.S. and other donors are likely to scrutinize the deal closely, the accord being negotiated appears to have been strengthened to address concerns related to transparency and the government's own mobilization of resources. Other donors have expressed concerns about the transparency mechanisms and what shareholder governments will be asked to pay to support the accord. End Summary.

Outlines of the Deal

¶2. (C) The World Bank, IMF and African Development Bank (AfDB) are coordinating an Ivorian package to simulteaneously deal with outstanding $450 million arrears and kickstart international payment into disarmament, demobilization and reintegration (DDR) of militaries and militias efforts through a $120 million facility, in exchange for much greater governmental transparency in how it handles revenues from the oil and gas, cocoa and cotton industries. Under the terms of the four-way deal, Cote d'Ivoire will pay a percentage (to be determined, but, according to WB Country Director James Bond, to be somewhere between 1/3 and 2/3) of the outstanding World Bank arrears over the coming six months, accept similar treatment for its AfDB arrears, accept rigid IMF review of fiscal resources and adopt meaningful surveillance and controls over oil and gas revenues to sharply curb corruption. In turn, Cote d'Ivoire will receive $120 million in World Bank funding in the form of a "pre-arrears clearance" over the coming 18 months in DDR funding (more heavily tilted towards community reintegration and encompassing a greater portion of the voter identification program than had been envisioned prior to the Ouaga Accord's

signature). The IMF would provide a $120 million Emergency Post Conflict Assistance facility (EPCA, essentially budget support) over a similar 18-month timeframe, and the AfDB would fund a portion (again, to be determined) of the World Bank arrears out of its post-conflict fund. At a recent briefing for donors, the local AfDB representative floated the idea of a Cote d'Ivoire donors conference to address multilateral debt stock sometime in September or October.

==========================
The Devil is in the Details
==========================

¶3. (C) World Bank Country Representative James Bond briefed Emboffs on May 10 after providing a briefing to all of the donor countries the previous day. Coming a long way from earlier briefings to the Ambassador in late April in which Bank staff sought to minimize the chances of failure and glossed over concerns related to the government's genuine willingess to be transparent about sensitive oil and gas revenues, Bond came prepared to emphasize the toughness of the conditions to be imposed on the Ivorians. He highlighted the front-loaded repayment schedule the Ivorians would have to accept as part of the package, in which the country will pay out between $150 and $300 million (depending on the final percentages to be discussed by the Bank Deputies in the upcoming May 29th Maputo meeting and a later mid-June Deputies meeting) in the coming six months versus receiving $50-60 million in DDR disbursements in the same timeframe (plus of course separate IMF EPCA disbursements). Bond said that while ongoing audits of oil and gas revenues won't be fully completed until late June, (just before the planned July 17 Board meeting), preliminary results will be available on May 22. This would allow the establishment of a monitoring mechanism for strict ongoing surveillance of these

revenues.

¶4. (C) Bond was far more skeptical in private than he was during the donor's meeting the previous day. He allowed that he "wasn't entirely sure" the whole plan would work and that the Ivorians would stick to their part of the bargain, but said the Bank, and IMF, would condition their engagement on strict Ivorian adherence, and that failings would have to be punished by immediate cut-offs of money flows. Bond said that the Bank was troubled by the role that Presidential ally and former Finance Minister Boubre plays in ongoing negotiations (Bond was furious Boubre negotiated the recent AfDB aide memoire which, according to Bond, deliberately misrepresented the World Bank's recent accord). He wondered if "we were backing the right horse" in depending on new Prime Minister Soro and Finance Minister Diby to help ensure the government will "play it straight." Bond said the Bank is offering Soro a technical advisor to help with the complexities of Cote d'Ivoire's macroeconomic position.

¶5. (C) IMF Country Representative Phillipe Egoume in a briefing with the Ambassador in late April allowed that the Fund was nervous to "lend into arrears," which is generally against IMF guidelines. Egoume also averred that IMF Board approval of their package was contingent on a solid fiscal control plan being put in place, identification of fiscal resources to pay the WB arrears over the six-month horizon, approval by the WB's Board of the "pre-arrears facility" and Cote d'Ivoire's acceptance of the Extractive Industries Transparency Initiative (which Bond said the WB was pushing as well).

=== =
Reactions of Permanent Bank, Fund Shareholders
=== =

¶6. (C) Germany's Charge d'Affaires has expressed skepticism about the speed and deliberateness with which the Fund and Banks have proceeded with negotiations towards reengagement.

She has indicated that Berlin will scrutinize any deal brought before the Boards, and has some misgivings about paying for arrears clearance twice (once through the AfDB's post conflict facility funded by that Bank's shareholders, and again through the portion of WB arrears to be written off by its own shareholders). The Charge was keen on ensuring strong guarantees on transparancy be put in place before the multipart package is put before the respective Boards.

¶7. (C) The French Economic Counselor was doubtful about the possibility of imposing real controls over oil and gas revenues, but lauded the initiative. Cote d'Ivoire's 1.6 billion (EURO) bilateral debt to France loomed large in the discussions, but the Counselor suggested that the GOF is resigned to seeing either all or the vast majority written off in a Paris Club.

==
Location of the African Development Bank
==

8) (C) Emboff asked major donor countries economics counselors about the question of the location of the AfDB. None appeared seized with the issue, and all indicated the question is not one they are actively considering with their Foreign and Finance Ministries. All assumed that the Bank would be coming back to Abidjan in the coming 12-24 months. None had considered the question of strict benchmarks triggering the move.

9) (C) Comment. While it would be useful politically (given the World Bank's role as principal DDR donor) and economically for the IFIs to reengage with Cote d'Ivoire, we believe the GOCI should be required to pay a high percentage of the arrears - at least 50 percent (Note: the parastatal PETROCI was negotiating to purchase Devon Energy's stake in one or more offshore oil blocks - clearly there are resources that can be mobilized). The USG should also insist upon the maximum possible transparency, ensure the oil/gas audit is scrupulous and make sure the forthcoming revenue surveillance system is well-designed and effective. End Comment.
HOOKS